BEFORE THE TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee
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IN RE: PETITION OF LYNWOOD UTILITY)
CORPORATION TO CHANGE AND E DOCKET NO. 99-00507
INCREASE RATES AND CHARGES)

REQUEST FOR TARIFF CHANGE TO IMPLEMENT SEWER BILL ADJUSTMENT FOR WATER USED FOR IRRIGATION AND FOR CLARIFICATION OF ORDER APPROVING RATE INCREASE FOR NON-RESIDENTIAL CUSTOMERS

At the hearing on August 2, 2000, the TRA received testimony on three remaining issues in this docket in accordance with its Order Approving Rate Increase dated May 10, 2000. Lynwood understands that this matter will be placed upon the TRA's Conference Agenda in the near future. Before this matter is placed on the Agenda for consideration, Lynwood would like to have the TRA consider two additional matters which are related to these issues which were not discussed at the hearing. First, Lynwood would like for the TRA to consider a change to the existing Lynwood tariff which will permit Lynwood to make an adjustment to its sewer bills for water used by its customers for irrigation which does not enter Lynwood's sewer collection system for treatment. Second, Lynwood would like clarification on the actual rate which it should be charging the Walnut Grove Elementary School pursuant to the Order Approving Rate Increase dated May 10, 2000.

Bill Adjustment for Irrigation

Under the rate structure approved by the Authority in this matter, the Authority approved sewer rates to be charged based upon the water usage of Lynwood's customers. Lynwood obtains the water usage of its customers from the two water utilities which provide water service to its customers, the City of Franklin (Franklin) and H. B. & T. S. Utility District (the District). The



existing rate structure does not provide for any adjustment to a sewer bill for water used for irrigation purposes which may not enter the sewer system.

Currently, the customers of Lynwood who receive water service from Franklin are being billed for sewer service by Franklin. Lynwood's customers who receive water service from Franklin are essentially the Lynwood customers who reside in the Legends Ridge and River Landing Subdivisions and Walnut Grove Elementary School. Franklin does not make sewer bill adjustments for water used for irrigation for its own sewer customers. If a customer of Franklin does not want to pay for sewer service for water used for irrigation, the customer must pay for and install a new water tap for irrigation water only. No charges for sewer service are made on the irrigation tap account. Lynwood sewer customers billed by Franklin are treated the same way as Franklin sewer customers.

When Lynwood filed its Petition in this matter, it anticipated that it would be able to enter into a billing and collection agreement with H. B. & T. S. Utility District to bill and collect Lynwood's sewer charges from its customers who receive water service from the District. Lynwood's customers who receive water service from the District are essentially its customers who reside in the Cottonwood Subdivision. After a billing and collection agreement was worked out with the District, the District wanted to delay the implementation of billing for sewer for at least 60 days. During this time period the District received many calls about why Lynwood's sewer charges were going to be billed by the District. A substantial amount of confusion resulted, and the District determined that it would delay agreeing to bill Lynwood's sewer charges. As a result Lynwood has been billing its customers who receive water service from the District. At this point Lynwood does

not believe that the District will be willing to bill and collect its sewer charges at any time in the near future.

Several customers of Lynwood have received large sewer bills along with large water bills this summer, and water used for irrigation has apparently been a substantial part of such large water usage. When water is used for lawn irrigation, the water does not go into Lynwood's sewer system for treatment. Lynwood certainly understands this issue and quite frankly has been wrestling with how to address this issue in its tariff. When water usage is used as a measure of the amount of sewer treated and water is received by a customer through a single meter, Lynwood has no way of knowing how much water is used for household purposes which enters its sewer system for treatment and how much is used for irrigation. Nevertheless, the large increase in water usage for some customers during the summer months over amounts used in other months is a clear indication that some of the water used during the summer months is for lawn irrigation.

In determining how to arrive at an appropriate method for addressing this issue, Lynwood has had several factors to consider. These factors are:

- The City of Franklin must be willing to implement any changes in the Lynwood tariff to address this issue. Franklin does not make any adjustment for sewer bills for water used for irrigation, and its billing program is not currently programmed to make such an adjustment for its own sewer customers. Franklin has expressed a real concern about changing its billing program to accommodate a change for Lynwood. In the event Franklin is willing to have its billing program changed to accommodate a change in the Lynwood tariff, Lynwood would have to pay the costs of the billing software programming changes. Lynwood does not know what that cost will be.
- 2) Under its existing system Lynwood will have to manually make adjustments to bills for its customers served water by H. B. & T. S. Utility District for water used for irrigation. To date Lynwood has not purchased a utility billing software program in anticipation of having its billing done by the two water providers. As a result the time and manpower necessary to make such manual adjustments was not included as an operating expense in the rate case.

- 3) The adjustment to sewer bills for irrigation will result in a decrease in the revenues projected in the rate case upon which the rates were based and approved.
- 4) If Franklin is not willing to make changes in its billing software program to accommodate adjustments for sewer service, Lynwood would be required to look into purchasing its own utility software billing program which would be a large expense not considered in the rate case.
- If Lynwood cannot convince H. B. & T. S. Utility District to bill for its sewer service, Lynwood will continue to have to deal with two separate billing systems which is somewhat awkward and causes problems when trying to implement changes such as the irrigation adjustment being proposed.
- If Lynwood severs its billing relationship with Franklin, Lynwood will no longer have an effective means of insuring that its sewer bills are timely paid since it will no longer have the threat of termination of water service to insure payment. Lynwood is currently experiencing collection problems from some of its customers who are served water by H. B. & T. S. Utility District. These customers are refusing to pay the new rate and are accruing overdue balances monthly. Without an agreement by the District to terminate water service for nonpayment of the sewer bill, Lynwood has no cost effective way to collect such overdue amounts. Lynwood does not experience this same problem with its customers billed by Franklin.

Notwithstanding these considerations Lynwood would like to propose a change to its tariff to provide for an adjustment to a customer's sewer bill for water used for irrigation. Lynwood suggests adding the following provision to its tariff:

Bill Adjustment for Irrigation

When a customer experiences high water usage as defined in this paragraph caused by irrigation for the April through September billing periods of any year, the Corporation will make an adjustment to the sewer bill for irrigation. To obtain an irrigation adjustment, the customer must meet the following conditions:

- 1) The customer must request the irrigation adjustment;
- 2) The customer's water usage for the monthly billing period in which an adjustment is requested must exceed 1.25 times the average monthly water usage of the customer's premises for the preceding October through March billing periods. In the event the customer's premises has not been receiving water and sewer service for the

previous October through March billing periods, the Corporation shall use the average monthly water usage for the previous October - March billing periods for a typical customer in the same subdivision for calculating the adjustment;

- 3) The customer's average monthly water usage during the October March billing periods must be at least 8000 gallons;
- 4) The customer's high water usage must be caused by irrigation; and
- 5) The customer must be current in the payment of customer's account for sewer service.

Lynwood projects that the implementation of this sewer bill adjustment for irrigation will result in a decrease in annual revenue of approximately \$66,500. Lynwood projected this revenue loss by obtaining the water usage records of its customers from Franklin and H. B. & T. S Utility District from October of 1999 through March of 2000 and calculating the average monthly water usage for its customers for these billing periods. Then, the actual water usage for its customers for April of 2000 through September of 2000 were used to determine the number and amount of sewer bill adjustments which would have been made under the rule proposed. Lynwood's analysis shows that 561 sewer bill adjustments would have been made and that the revenue loss to Lynwood from these adjustments would have been \$66,503.02.

The loss of revenue resulting from the implementation of the sewer adjustment rule is a concern to Lynwood. According to the test year adopted in the rate case, the revenues to be produced by the rates approved still do not allow it to cover its operating expenses and depreciation expense and permit it to earn the 8% rate of return approved by the Authority. The loss of additional revenue from the irrigation adjustment could worsen Lynwood's financial condition.

To address this concern over potential lost revenue from the irrigation adjustment, Lynwood proposes that the Authority permit it to take the funds which Lynwood will receive from the settlement with David Terry in the amount of \$138,000 and place these funds in a special deferred revenue account to be used to make up the revenue loss which will result from the application of the irrigation adjustment rule. If Lynwood makes irrigation adjustments totaling \$60,000 from April - September of 2001, then Lynwood would use \$60,000 from the special account to make up this revenue loss before the end of the 2001 calendar year. If the irrigation adjustment is approved by the Authority along with the approval of the establishment of this special account, Lynwood's customers would benefit from the irrigation adjustment rule, and Lynwood would be protected from any substantial revenue loss resulting from the implementation of this rule.

Lynwood does not know when it will receive the \$138,000 from the promissory note signed by Mr. Terry and secured by a lot in the Legends Ridge Subdivision. If Mr. Terry does not pay the promissory note when due, Lynwood will have to foreclose and sell the lot which might affect the actual amount received on the note. Lynwood will be required to pay federal income taxes and state franchise and excise taxes on the \$138,000 in the year it is received. Lynwood will not know the amount of revenue loss which may result from the application of the irrigation adjustment rule for 2001 until late in 2001. In spite of these uncertainties, Lynwood wants to go ahead and have the irrigation adjustment rule approved now to address the high bills resulting from water used for irrigation may be incurred next spring and summer.

Lynwood believes that it is important that the approval of the irrigation adjustment rule be considered now at the same time the Authority is determining how it will treat the \$138,000 funds to be received from Mr. Terry. The proposed rule provides that the customer must request the

irrigation adjustment because Lynwood does not have a utility billing program in place which can automatically make this adjustment for water used for irrigation. By next summer Lynwood should know whether it will continue to use Franklin, whether H. B. & T. S. Utility District will ever agree to bill its sewer charges, or whether it will need to invest in utility billing software to do its own billing. Therefore, by next summer the irrigation adjustment could be incorporated into a utility billing software program which would make the adjustment automatically without a customer requesting it.

Clarification of Rate to be Charged to Walnut Grove Elementary School

In its Order Approving Rate Increase, the Authority approved the rate proposed by Lynwood for the Walnut Grove Elementary School in an amount not to exceed \$787.50. In the course of the rate case, Lynwood actually proposed two different rates for its non-residential customers. The school is Lynwood's only non-residential customer. The proposed tariff filed with the Petition in this docket included a new non-residential rate of \$7.21 per 1000 gallons. After the hearing Lynwood discovered that the rate of \$7.21 produced less revenue from the school than the \$787.50 per month based upon water usage obtained from the City of Franklin for the school for November 1998 through January 2000 billing periods. As a result Lynwood proposed a rate of \$9.68 its Response to Staff's Fourth Information Request filed with Authority which rate was designed to produce the same annual revenue Lynwood was receiving from the school at the \$787.50 flat rate per month. At the Authority Conference on February 29, 2000, the Authority voted that "the company's proposed commercial rate be approved not to exceed \$787.50 per month. This motion is based on the fact that the company cannot produce water information usage for Walnut Grove and the desire to retain the revenue contribution for Walnut Grove at the "99 level."

Because of the uncertainty about what rate Lynwood should be charging the school, Lynwood has continued to charge the school \$787.50 per month regardless of its usage. Based upon its water usage which Lynwood has obtained from the City of Franklin, the school would have paid sewer bills in the following amounts for the past year at the \$9.68 rate per 1000 gallons:

Month	Water Usage	Bill @ \$9.68 per 1000 gallons
August 2000	48,000	\$464.64
July 2000	35,000	\$338.80
June 2000	155,000	\$1,500.40
May 2000	148,000	\$1,432.64
April 2000	266,000	\$2,574.88
March 2000	88,000	\$851.84
February 2000	116,000	\$1,122.88
January 2000	55,000	\$532.40
December 1999	71,000	\$687.28
November 1999	88,000	\$851.84
October 1999	101,000	\$977.68
September 1999	123,000	\$1,190.64
AVERAGE 12 MONTHS	107,833	\$1,043.83

Lynwood seeks a clarification from the Authority on the rate it should be charging the school.

Lynwood suggests that the Authority approve the flat rate of \$787.50 which the school has been paying for several years. The school's monthly sewer bill is subject to wide variation depending on

whether children are in school during the month of service. This rate will maintain the school's revenue contribution to Lynwood which will not have to be picked up by residential customers. This rate will also permit the school to better budget its monthly sewer costs.

Respectfully submitted,

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Certificate of Service

I hereby certify that a true and exact copy of the foregoing document has been served by United States Mail, postage prepaid upon the following on this the _______ day of October, 2000:

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